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C O N F I D E N T I A L LAGOS 000698

SIPDIS

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SUBJECT: OIL COMPANIES READY TO CUT NIGERIA'S APRIL PRODUCTION

REF: LAGOS 499

Classified By: Joseph Gregoire for reasons 1.5 (b)(d) and (e).

1. (C) ExxonMobil, ChevronTexaco and Shell have received instructions from the Nigerian National Petroleum Corporation (NNPC) to anticipate reductions in their April production quotas in response to an anticipated OPEC decision to reduce production worldwide. Edmund Daukoru, Nigeria's presidential advisor on oil matters, announced February 24 that Nigeria would reduce its oil output by 150,000 barrels per day to comply with an OPEC agreement on production cuts. (reftel).

2. (C) Mary Feeley, ExxonMobil's General Manager for Exploration, told ECONOFF on March 15 that ExxonMobil received notice from NNPC that it should expect a reduction in its April allocation of Nigeria's OPEC quota. Feeley said she is not certain how NNPC determines each company's allocation, noting that decisions regarding the quota are made "in a black box," and the companies are simply told what they can expect to lift each month. The following day, Kevin Kassner, a senior advisor on Chevron Nigeria's Executive Staff, added that the company had also been notified that its April allocation will be reduced. In a meeting with ECONOFF and Paul Hueper of the U.S. Department of Commerce on March 22, O.J. Agbarah, Shell's Area Production Manager based in Warri, said Shell is expecting to reduce its April production in the area from 450,000 barrels per day (bpd) to between 350,000 to 380,000 bpd.

3. (C) ExxonMobil's Feeley and Chevron's Kassner both noted that such a notice from NNPC is never the final word. According to them, the companies are always prepared for "swing production," when NNPC requests more liftings mid-month that drive output higher than the pre-stated monthly allocation.

4. (C) COMMENT: The GON seems prepared to comply with a reduction in crude output if OPEC continues that tack at its March 31 meeting. In so doing, Nigeria would be trying to leverage its position that it deserves a quota increase. Daukora recently stated publicly that he is hopeful Nigeria's quota will be raised from 8.2 percent to 10 percent of OPEC's total production. NNPC Group Managing Director Funsho Kupolokun also said he hopes for a higher quota, noting that the recent commissioning of Total's Anemnam/Kpono oil field raises Nigeria's production capacity to 2.8 million bpd, almost 800,000 bpd over the country's quota. The GON's cooperative stance may be a hedge: if the OPEC meeting does not end in an agreement on reduced output or if it appears other members will not comply with such an agreement, NNPC may use swing production to maintain the country's current high output. END COMMENT.
HINSON-JONES